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TO RUEHC/SECSTATE WASHDC PRIORITY 1025
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RUEHBO/AMEMBASSY BOGOTA 3525
RUEHBR/AMEMBASSY BRASILIA 7387
RUEHBU/AMEMBASSY BUENOS AIRES 4647
RUEHCV/AMEMBASSY CARACAS 1898
RUEHPE/AMEMBASSY LIMA 1949
RUEHME/AMEMBASSY MEXICO 1833
RUEHMN/AMEMBASSY MONTEVIDEO 4105
RUEHQT/AMEMBASSY QUITO 4536
RUEHSG/AMEMBASSY SANTIAGO 9110
RUEHSO/AMCONSUL SAO PAULO 2008
RHEHNSC/NSC WASHINGTON DC
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
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UNCLAS LA PAZ 002880

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STATE FOR WHA/AND
TREASURY FOR SGOOCH
ENERGY FOR CDAY AND SLADISLAW

E.O. 12958: N/A
TAGS: [ECON](#) [EINV](#) [ENRG](#) [EPET](#) [PGOV](#) [PREL](#) [BL](#)
SUBJECT: ARGENTINA AND BOLIVIA SIGN GAS DEAL

REF: LA PAZ 2817

11. (U) Argentina and Bolivia signed a twenty-year energy agreement October 19 in Santa Cruz, Bolivia (reftel) that will go into effect on January 1, 2007. In addition to increasing the volume of natural gas that Bolivia will supply to Argentina to 27.7 million cubic meters per day within three years (a 20 million cubic meter increase over current commitments) and setting a price formula with the current price of USD 5 per million BTU as the base price (reftel), the agreement also included a commitment by Argentina to construct a liquid separation plant in Bolivia to produce gasoline and liquid petroleum gas for export. Argentine President Kirchner reportedly stated that Argentina would invest in gas production in Bolivia if private companies refused to sign new contracts and increase their investments sufficiently to supply the Argentine market. The gas supply contract contains a clause that states that if YPFB (Bolivia's state oil company) fails to provide Enarsa (Argentina's state oil company) with the daily amount of gas set by Enarsa, up to the daily contracted amount, YPFB must pay Enarsa the difference between the amount requested and the amount supplied multiplied by the price of gas that day based on the formula. The two countries also signed a second agreement in which Argentina agreed to provide a USD 70 million line of credit to Bolivia to enable farmers to access loans to buy agricultural machinery made in Argentina. Nation Bank of Argentina will provide the funds and Bolivian financial entities will administer them.

12. (SBU) As relations with Argentina tighten, tensions with Brazil continue to rise. The Brazilian Charge told Econoff on October 20 that Bolivia had sent an envoy to Brazil to reiterate that the contract negotiation deadline of October 28 with Petrobras over its production operations and refinery control was firm. The press reported that President Lula da Silva's adviser, Marco Aurelio Garcia, stated that if the Petrobras contract was not optimal, then Petrobras would not sign it but would pull out of Bolivia and seek compensation.

13. (SBU) Comment: The sealing of the energy deal just nine days before the deadline for YPFB (Bolivia's state-owned oil company) to negotiate new contracts with gas producers may benefit the GOB in negotiations, because the possibility of tapping into the Argentine market appeals to private investors. However, investors have told us that the model contracts provided to date are unacceptable. The price agreement with Argentina will put pressure on Brazil to agree to a similar price increase in its negotiations with YPFB. However, because the GOB will not be able to reach the agreement's targets without substantial investment in production -- some sources indicate up to USD 3 billion will be needed, the agreement, which is intended to boost President Morales' sagging popularity, will be difficult to implement, and Bolivia will likely be forced to pay for its failure to comply. Neither YPFB nor Argentina's state-owned company Enarsa have the capacity to carry out the investment without private cooperation. End comment.
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